AMERICAN

MULTINATIONAL CORPORATIONS

IN THE

THIRD WORLD OF

UNDERDEVELOPED NATIONS

A Senior Honors Thesis
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INTRODUCTION

In every significant area of human endeavor, the world is shrinking into a global village. As mankind increases his capability to communicate and transport goods, he has stretched his outreach to include the people of all nations in common pursuits. The changing of the empires throughout history has proven the meaninglessness of national boundaries, and the flourishing of shipping and trading has spread ideas, art, religion, science, and government along with commercial goods.

The mercantilistic drives that grew so strong hundreds of years ago, in addition to accomodating a new middle class and giving new reasons for exploration and conquest, ushered in a new role for business in the world. Today, when one hears that, "The business of America is business," there is a reminder of the role that commercial enterprise plays in every activity that a nation and a people may engage in.

The part that the United States has played in the internationalization process clearly dates before the final break from isolation since the Second World War. Its entire development as a group of colonies is owed the quest of European Imperialism for new markets and raw materials. The motivation of Manifest Destiny that stretched the country from one ocean to the other would have been an empty dream if there had been no commercial backing of exploration and settlement. Wherever settlers went, so did the traders, the trappers, and the miners, followed closely behind by bankers and politicians.

Given these conditions, then, it becomes clear why there is such a need to study the role of American multinational corporations in the Third World. Some attempt must be made to understand the problems faced by underdeveloped nations, what some of their causes might be, what may be done to help solve them, and how American enterprise fits into the whole picture. This paper will attempt to do the following: arrive at some concept of what multinational corporations are; describe some basic characteristics and problem areas of Third World countries; examine the role of the multinational corporations in causing and solving some of these problems; assess the domestic and international political implications of development; discuss some important questions of policy.

Finally, it should be noted that any study of this subject made by Western analysts must be seen in the light of the cultural background that establishes their viewpoint. The reporting and examination of phenomena seldom takes realistic account of the experience of that which is studied; our understanding of non-western mentality is made only in the western terms with which we operate. This bias is best accounted for by the acknowledgement of its existence.

DEFINITIONS

Despite the interdependence of various national economies upon each other due to the influence of multinational corporations, it is possible to arrive at some working definition of such enterprises and the underdeveloped economies they affect so profoundly.

Multinational Corporations

Although virtually every major developed country has a group of corporations whose business goes beyond the national border, there is a particular need to study the American enterprise. The American dominance of world trade has developed to the point of such saturation that four-fifths of all multinationals are headed by American parents.[1] Furthermore, American dominance is shown by the control of the corporations based on equity ownership, which is 90% American, by source of funds, 25% American, and although less than 1% of all employees of multinationals are American, almost 100% of the taxes paid on the whole process goes to foreign governments, that is, to governments other than those of the host nations.[2] Indeed, already by the early sixties, such American giants as the International Telephone and Telegraph Corporation (ITT) had established themselves as corporate monsters in the international scene. Although American by title, ITT conducted more than eighty percent of its business outside the U.S. in the sixties, leaving the domestic market free for AT&T, its American counterpart that is not attached to it in any corporate way.[3]

ITT is a perfect example of how an American multinational can avoid the pressures of the parent government in the fields of regulation and security. Early in the life of the corporation, it was agreed that ITT would not bother AT&T in the States if the latter would leave ITT alone in the foreign market. As the state of the art of communication improved, so did the monopolistic nature of this corporate scheme; although manageable at home with the domestic companies, the monopoly problem was harder to tackle with ITT, which used its multinationality to evade American anti-trust laws in buying up the foreign competition and setting up its networks around the globe.

ITT presented another problem in the area of security during the Second World War. Because of its pre-war ties with European industrialists on both sides of the Maginot Line, the then-corporate head Sosthenes Behn had connections of the most sensitive nature. ITT had interests in all kinds of defense-related industry on both sides of the war, many times unknown to both the Allies and the Nazis. "Thus while ITT Focke-Wulfe planes were bombing Allied ships, and ITT lines were passing information to German submarines, ITT direction finders were saving other ships from torpedoes."[4] In Behn's own words during subsequent testimony to the House Commerce Committee on the F.C.C., "International trade and good will should not be stifled and throttled by a bugaboo of national defense."[5]

The dilemma presented by the American multinational is one not just for investors and managers to take responsibility ~~for~~. Based on the consumers' share of the G.N.P., 2/3 of the final demand of the U.S. economy originates with the American consumer. Given the market sensitivity of the economy, that puts a significant burden on every American as to what is produced, how much is produced, and how much it will cost.[6] If American corporations do something, it's because the market dictated it; if the market dictated it, it's because the people asked for it.

If there is something special about the multinational corporation that differentiates it from the domestic, how might one define that difference? "For most observers, the key to a realistic definition today is the purpose of corporate management in reaching extra-national markets through cross-border organizational structures and decision processes. This essentially subjective attitude can be only patially measured objectively..."[7] Therein lies an important question: how much does one rely on objectivity in defining the nature of the multinational corporation? Jack Behrman combines the subjective "attitudinal" approach with a statistical objectivity when he holds the multinational enterprise to refer to "...companies having sufficient alternatives in their operationa abroad to require a 'multinational' mentality on the part of management —— which begins to arise with 10 per cent of operations abroad; and by the time 25 pwr cent is foreign, the former 'domestic-international' division is on the way out in favor of a world-wide concept."[8]

Richard Eels, after a discussion of Behrman and others, arrives at the following: "The multinational corporation is a cross-border or transnational business organization or aggregate of organizations that is characterized mainly by the dispersal of its managerial centers among several nations for the purpose of overcoming the barriers at the political frontiers of states."[9] Berhman affirms the basic characteristics of common ownership responsive to a common management strategy[10] leading to "... the emergence of the strategic view that business should find the best markets, employ the best technology, finance through the best channels, irrespective of geography."[11]

Thus, besides the more obvious characteristics of foreign ownership and management, other considerations involving subjective perceptions of the corporation's role must be taken into account. If corporate leaders themselves take a serious attitudinal approach, then analysis of their role should not be done in the vaccuum of objectivity. The recurrent allusions to the relative unimportance of national boundaries in the pursuit of business ventures is a major factor in dealing with nations of diverse cultural and developmental patterns.

<u>The Third World</u>

Although corporations may not look at the world in terms of political entities, nations do. There are many ways one may approach defining the Third World of underdeveloped nations; indeed, there are many flaws in the perception of the world as a trichotomy, for there are in many ways as many "worlds" as there are nations, perhaps even more. Furthermore, essessments of different nations change as times go by. "'The West' itself is a shifting concept; the Russians, Japanese, Turks, Latin Americans, and even the Germans have found themselves on both sides of the line."[12]

The division of the planet into three worlds takes into account the following: the First World of western capitalism, represented by the United States, Western Europe, Canada and Japan; the Swcond World of the Communist block, represented by the Soviet Union, Eastern Europe, and perhaps China; the Third World of underdeveloped nations, which is made up of all the rest. There are some flaws with this breakdown, however. For example, China cannot reasonably be placed into the Second World with the Soviet Union and its block. Their economies are in very different stages of development, and their ideologies are different in many respects. Also, it is difficult to place a country such as India, which is aligned somewhat to both the First and Second Worlds in terms of foreign affairs and growth strategy. Also, the newly-rich oil nations should be put into a class by themselves, apart from the rest of the underdeveloped world.

These inadequacies lead one, then, to the question, "How many worlds?" Maoist doctrine categorizes countries by their progression toward a Marxist society. Thus, for Mao, the three worlds are those of the feudal, capitalist, and socialist-communist states. Although this view is gaining wider acceptance in the U.S., there are many assumptions about Marxist ideology that need to be accepted before one can continue in this line of analysis. Thus, for many, the Maoist approach is just one among several.[13]

Professor Chu Yuan Cheng of Ball State quips about a "showdown approach" where the worlds are divided according to whose side everybody is on in the event of war.[14] Other authors divide the globe into as many as seven or eight worlds, depending on their criteria and models of development. In light of all these choices, then, I will adhere to the traditional trichotomy for the purposes of this thesis. As we will see, there are many characteristics of the Third

World that are common to most countries outside of the traditional North American, European, and Asian East-West group.

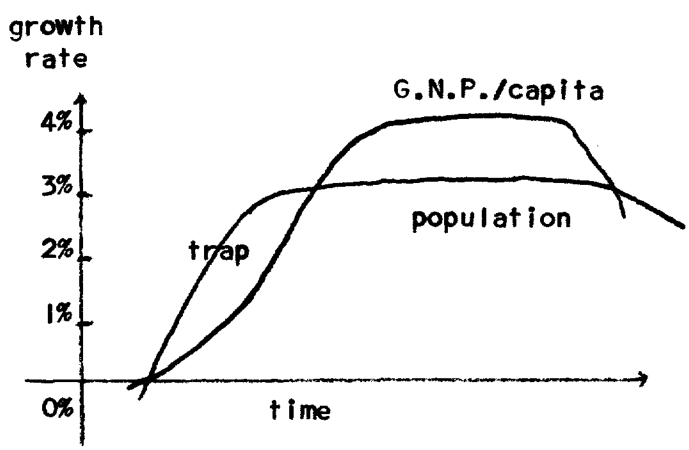
Just as in defining the multinational corporation, there are subjective and objective traits to consider in defining the Third World. William C. Blanchfield says, "We shall define underdeveloped countries in economic terms, which means that we shall use the national product per capita as a measure of the economic status of different countries."[15] However, G.N.P./capita is just one of many standards used in judging the strength of an economy, and it's grounded in a heavy capitalist bias. Indeed, because of the special nature of developing economies, many statistical assessments lack adequate validity due to their lack of a reliable comparison basis. "In the developing countries, statistical series are constantly being changed as to their bases or composition, and no one year's data can be counted as reliable."[16] Thus, the subjective and objective are combined to describe underdeveloped countries. Some of these basic characteristics can be seen by examining their agriculture, population, G.N.P. (income) per capita, and income distribution.

One of the traits of indusrtrialization in the United States and Europe was the flight to the cities of millions of former farmers. Likewise, the development of economies in other parts of the world is characterized by greater percentages of workers in the industrial, as opppsed to agricultural sector. "One of the obvious characteristics of underdeveloped countries is the high proportion of the population engaged in agriculture. In the United States, less than four percent of our population is engaged in producing food in order to feed the other ninety-six percent. In India, however, seventy percent of its population is engaged in agriculture."[17] The high proportion of agriculture workers leads partly to a gap in the technological capabilities of developing nations. The U.S., U.S.S.R., Japan, West Germany, France, and Great Britain employ 70 percent of all the world's research and development people, spending 85 percent of the total global R&D budget. After accounting for the other developed nations' budgets, developing nations are left with 3 percent of the world's R&D money. This discrepancy, in turn, brings about a "brain drain" of the Third World's scientists and engineers, which make up 12 percent of the world's technicians, from the countries that need them more to the already developed economies.[18] The table below illustrates the labor distribution among various economies.[19]

	Level of G.N.P./capita in 1964 U.S. dollars			
Labor force	$50	$500	$800	$2,000
Agriculture and other primary industries	75.3	49.9	28.6	8.3
Industry	4.1	20.5	30.7	40.1
Services	20.6	29.3	39.2	51.6

Population presents another major problem for the underdeveloped countries. Three quarters of the world's population lives in the Third World.[20] Furthermore, the highest birth rates in the world are in the Third World, which makes even more serious such problems as providing food and health care, educating, and housing members of already strained economies. If the growth in the economy were commensurate with that of the population, then the problems posed by the latter would not be as serious.

This situation is explained by the Malthusian concept of the low-level equilibrium trap. In developing economies, the growth rate of income per capita is lower than that of population. This will remain so until a certain point is reached, after which population will stabilize and per capita income will continue to rise, resulting in a higher standard of living for more people. The trap, however, is in the tendency of population to eat up all the gains made in overall national income, and usually a bit more. The difficulty in reaching that breaking point lies in the relative weakness in the economy of the income-generating sectors for the majority of people combined with the population problem. The following graph illustrates:[21]



This economic problem is related to the social implications of attitudes towards family life in underdeveloped countries. Because large families are seen as economic assets, because most people in underdeveloped countries are also undereducated in family planning methods, because of the status of women primarily as child-bearers, and because of the high infant mortality rate,[22] there is little wonder why there is such turmoil when countries such as India, which could end its unemployment if it could skip just one generation of children, embark on ambitious birth control programs.[23]

Another major feature of developing nations is the inequitable distribution on income. Although the income per capita in developing nations rose at an unprecedented annual rate of 3.4 percent since the Second World War,[24] this factor is not indicative of an increase of living standard or income level for a majority of people. The following table shows the average income of workers in Colombia, 1964:[25]

	Rural Labor Force		Urban Labor Force	
Decile	Percent of total income	Average annual income/ worker (pesos)	Percent of total income	Average annual income/ worker (pesos)
1 st	1.4	880	0.9	1,140
2 nd	3.1	1,940	3.3	4,200
3 rd	3.6	2,260	4.3	5,470
4 th	3.9	2,450	5.0	6,300
5 th	4.5	2,820	5.5	7,000
6 th	5.5	3,450	7.0	8,910
7 th	6.0	3,760	8.0	10,180
8 th	8.0	5,020	11.0	14,000
9 th	13.0	8,160	14.5	18,450
10 th	51.0	32,000	40.5	51,530

Income distribution inequities are not restricted to South American countries, but are characteristic of underdeveloped countries overall. "A World Bank study of income inequality in 26 less developed economies, with G.N.P. per capita no higher than $300, reveals that the lowest 40 percent of the population received 14 percent of the total pretax income, the next 40 percent received 32.7 percent, and the top 20 percent received 53.3 percent. In half of the underdeveloped countries, income shares of the lowest 40 percent of the population averaged only 9 percent of total pretax income."[26]

Income tax policies designed to redistribute the wealth have proven to be ineffective. Although there will always be a few people who successfully evade the tax, if these few are those with all the money, then the problem becomes an even greater burden, and a greater inequity occurs. For example, "In only the two richest countries of the region (South Asia), Malasia and Sri Lanka, were as many as 2 per cent of households liable to income tax; elsewhere the proportion was less than one percent. And the tax was largely ineffective as a result of avoidance and evasion."[27]

There are other characteristics that define Third World nations, such as their colonial pasts and traditional societies, but are not particularly relevant to the discussion here. The traits they exhibit in agriculture, population tendencies, and per capita income and its distribution, are those particularly suited to be considered in the light of the role of American multinational corporations; this is not to take this role out of context, but to make a distinction.

THE ECONOMICS OF DEVELOPMENT

As in any economy, there are many problem areas in the development of the Third World. There are, however, three areas of concern especially dependent on the attitudes and policies generated in the board rooms of corporations around the world. These areas are run almost entirely by business; they are the investment, import-export, and employment sectors. Corporations decide the sources, goals, and returns of investments made by both ppivate and public entities; it is through them that all cross-boundary trade flows; they are the decision makers when it comes to hiring and firing practices with employees of all sorts, deciding who will work, how many will do it, and where they will do it. The investment, import-export, and unemployment problems are not merely characteristic of Third World economies, they are directly related to multinational corporate policy making.[28]

Investment

If investments in American corporations abroad were made primarily by Americans themselves, then perhaps there would be greater justification for the flow of profits to the parent economy. However, "...subsidiaries of U.S. parents in less developed countries have drawn three or four times as much capital from non-U.S. sounces as from U.S. sources in connection with the financing of their operations."[29] As much as 85 percent of investment capital in the Third World comes from domestic saving.[30]

Furthermore, the amount of aid given through public entities is more significant than private investment. The World Bank reported that in 1973, a total of $13 billion was given in aid, whereas the total of direct private investment amounted to $2.5 billion a year.[31] The increasing role of aid programs in providing capital for development is made evident by the provisional approval for the World Bank to double its capital base from $40 billion to $80 billion.[32] This heavy investment of non-American capital in essentially American-inspired economies brings about a capital balance situation that will be dealt with later in a discussion of import-export areas.

In regards to the nevertheless substantial American investment abroad, there has been controversy among Americans as to the effects of this investment on the American parent economy. Although it is generally felt that damage is done to the balance of payments and to the local labor force (witness the "Buy American!" bumper-sticker proliferation), there is not much evidence to support such claims. "In balance-of-payment terms, the best measurements that have so far been developed support none of the extreme propositions that are commonly advanced with regard to multinational enterprises. They support neither the view that direct foreign investment is hurtful to the U.S. balance of payments, nor the conflicting view that such investment is hurtful to the balance of payments of host countries,"[33] although it affects them in different ways.

Nevertheless, controls have been placed by the American government on foreign investment in ignorance of their effects. "Since 1965, the U.S. government has imposed first voluntary and then mandatory controls over capital expenditures abroad. These controls were applied partly in ignorance of their effect on international payments, which was due in turn to the lack of adequate data on the specific operations of international business."[34] In light of recent agitation for more stringent controls, "...the effects of such import restrictions and related prohibitions would then have to be measured in terms of the usual variables with which trade theorists are familiar: in terms of higher prices and reduced living standards in the United States and elsewhere. Conceivably, there might be some short-term gain for some unskilled and middle-skill workers of the U.S. labor force. But the living standards and opportunities for their children would almost certainly be reduced."[35]

Compared with the impact of foreign direct investment on the parent nation, the reaction in host nations has been varied. The attitudes of foreigners to investment in their countries depends in great part on their ability and willingness to use the new capital wisely. "While low capital is characteristic of an underdeveloped country, it is much too simplistic to believe that the infusion of large amounts of capital will automatically result in a higher per capita product. What is necessary, in addition to large infusions of capital, is a predisposition by the people to accept and be able to use such capital in producing their products."[36]

Protests by the intellectuals in many nations, especially Ghana, Nigeria, India, Chile, Mexico, Brazil, Malaysia, Turkey, Pakistan, and the Phillipines, have been strongly against foreign investment.[37] They see the importation of foreign capital as synonymous with the importation of foreign culture and dominance. Also, they feel a lack of control over their own economy, a reaction that is not unfounded due to the attitudes of corporate management that they alone know the wisest investment policies and due to the fact that most nationals have little experience in the workings of capital management.

The reactions of various governments have ranged from cooperation with business in trying to understand the implications of investment and ways of controlling its returns to granting a free reign to any interest that wishes to become established. In India, there is an investment review committee, which demands that a "major interest in ownership and effective control" be in Indian hands. The Phillipines directs investment to specific activities; Argentina pushes investment into national interest areas. Uruguay and Paraguay, both very under-developed, are eager to invite foreign investment, and Pakistan, Turkey, and Thailand induce capital by providing guarantees for foreign investors. Brazil is perhaps the most open of all economies, requiring the simplest of licensing procedures. African nations, for the most part, are undecided in how to provide capital for development without losing some of the control they feel they must assert from the outset.[38]

One scheme that is gaining in popularity is for nations to require an orderly arrangement of divestiture into national control after certain lengths of time in the corporate life. "The challenge to domestic interests has caused host governments to favor schemes for sharing ownership and control in the subsidiaries of international enterprises. (These) are generally thought of as a remedy in two senses: they reduce the economic costs to the host country by cutting off the foreigner's right to perpetual rewards; and they reduce a source of political tensions between the host country and the country of the parent enterprise, e.g., the United States."[40]

There is speculation whether this prearranged divestiture would be beneficial to host nations in the long run. Although they would participate more fully in the operations of the corporation, the latter for their part may see this as a detriment and reconsider making the investment. Thus, "...a prearranged scheme for divestiture would often be hurtful to host countries. It would tend to scare off foreign investors who had a long-term view of their investment."[41] "But the multinational corporations hesitate to invest too heavily outside the more developed nations. They fear expropriation, limited domestic markets, paucity of skills, unfamiliarity with the milieu, and a general economic weakness in the L.D.C.'s (less developed countries)."[42] One can expect the dire consequences on host economies of an oversaturation of quick-return, "fly-by-night" investment if corporations are not given reasonable opportunity to profit from high cost, long term investments that will continue to grow and strengthen the host economies.

In the views of several more radical nations, the alternative to divestiture in attaining greater control is nationalization. Nationalization is not a very recent tactic, for already shortly after the Second World War, in 1946, Peron of Argentina nationalized the giant ITT, and Arab nations were considering the same with foreign oil interests.[43] In the short run, it is far easier for nations to exercise their territorial rights and simply assert ownership and control of a corporation operating on their soil; nationalization requires no assent from the corporation, although it is often sought anyway; it may utilize the element of surprise in announcing such plans in order to minimize the bargaining positions of the corporation; realization of the ultimate goal of control and ownership by nationals is immediate and usually irreversible.

It is doubtful whether the disruptive nature of nationalization is more beneficial than a more organized approach. "Nationalization as such contributes relatively little to economic stability. As for redistribution (of income), here too, the various tax and welfare instruments can accomplish much more than nationalization."[44] For the most part, European Socialist Democrat parties have given up nationalization as a tactic because of "...the realization that under modern conditions the control of industry, whether for private or social ends, is more important than ownership..."[45]

Yet in spite of doubts about the effectiveness and sensibility of nationalization, it is an active policy of many governments. It can be pursued in a negotiated way, or it can be a simple expropriation of assets, stock, etc. The difference between these two methods can be examined more or less side by side in a single country, Chile, where former President Eduardo Frei Montalva's preference for negotiation contrasted with Allende's abrupt expropriation policies. "Frei insisted on renegotiating an agreement with the American Copper companies concluded by his own government and put into effect only two years before, by which Chile had acquired a substantial, though not in every case controlling, share of the ownership of the copper mines. He now demanded an immediate majority interest and the progressive acquisition by Chile of the remaining American stock. ...Ambassador Korry (from U.S.) was instructed to be helpful in arranging mutually satisfactory terms. 'Satisfactory' in this context was a relative concept, given the companies' knowledge that the alternative would be outright expropriation."[46] Also, in 1969, Frei concluded the negotiated nationalization of the Anaconda Company,[47] and he "...agreed with ITT on a plan for gradual nationalization, with the government gradually buying control."[48]

Contrast this method of gaining control with Allende's, the elected communist successor of Frei, who ordered on Nov. 20, 1970 the administrative takeover of two Chilean companies controlled by Northern Indiana Brass and Ralston Purina, charging that they "...intentionally deprived Chilean jobs."[49] Chilean promises to nationalize all U.S. interests in banking, insurance, and other industries and Allende's requests for the alteration of constitutional property guarantees to allow easier government takeover of industry and mining seriously damaged the prospects for future investment of development capital.

"With the Chilean government's new policy of expropriation without compensation designed to discourage any private investment, ...and with default on its international debt repayments in 1971, the credit-worthiness of Chile would have dropped drastically between 1970 and 1973 whatever the policy of the United States was in international lending institutions."[50] Indeed, in 1970, Allende promised to "...renege the commitments with the International Monetary Fund," and found it "...absolutely necessary to review, denounce or renounce, as befits each case, those treaties or agreements which involve commitments limiting our sovereignty, and, in particular, treaties of reciprocal assistance, pacts of mutual aid or other pacts which Chile signed with the U.S.A."[51]

American interests should be prepared to deal with such wavering treatment of contractual and treaty agreements. There is an inherent controversy about who should run the multinationals --- the corporation itself, or the host government. This problem will be treated as a political problem later; the point here is that there may be tactical advantages to being liberal about attitudes toward nationalization. "The fact that the U.S. government withheld retaliation against Peru in the dispute over nationalization of the International Petroleum Company (an Esso subsidiary) raised the stock of the U.S. government and increased receptivity toward U.S. investment in Latin America."[52] As new nations struggle with the question of how to assert more control over their own economies through participation in the industries and enterprises already present, investors and governments must proceed with caution and patience, lest the door to future investment opportunities be closed more tightly. This situation is not beneficial to any party involved: the host nation, the corporation, or the parent nation.

Import-Export Sector

The whole mercantilistic drive necessary for the development of Third World economies depends on the ability to trade physical goods and technology along with capital. The transportation of goods from one place to another is the basic nature of importing-exporting enterprises; no nation can afford to extricate itself from the world trade business, but the underdeveloped nations have a special dependence on healthy world trade for the survival and growth of their economic systems. If they seek to make any improvements at all in their ways of life and standards of living, they must blend into the international arena and learn from those who have already attained what they seek. Unless a nation wishes to remain in its primitive state, which is certainly its own choice, it cannot close itself to sharing in the progress already met. And the underdeveloped countries simply do not have the capacity to develop on their own.

Very few nations, such as the United States, are endowed with the natural and human resources necessary for isolated diverse economic growth. The strength of other economic powers is based on the ability to bring to themselves that which they don't have by trading what they have in abundance. Such is the very nature of trade and barter.

The multinational enterprise is the medium of exchange in the trade market. Through them pass all the goods so desperately needed by the Third World in their quest for growth; through the same media pass the goods that these nations hope to use as barter. The corporations, responding to market demands abroad, transmit the market disadvantages of underdeveloped nations into the international trade sector, leaving them fair game to advanced market pressures presented by the mature economies.

It is in this vital sector that the multinational corporation plays its most striking role. Growing economies depend on the fairness of corporate trading policies to enhance their stature in the international trading community. Illustrative of this is the example of the tobacco industry, upon which many economies depend simply for survival. "Seven transnational tobacco companies control world cigaret output including about 75 per cent of the non-communist world's tobacco production and 90 percent of all processed tobacco."[53]

It has been projected by the Organization for Economic Cooperation and Development (O.E.C.D.) that "The Third World's share of international trade (excluding China) could well rise from 12 per cent at the beginning of the 1970's to between 18 and 22 per cent by the end of the century."[54] This projection is made more apparent by the fact that "...Western markets can absorb the potential volume of Third World products without disruptive price competition or loss of jobs..."[55] If the Third World will be able to participate more in the trading sectors, what will be the nature of their exports? What will be the nature of their imports and the effects they will have on their economies?

Predominantly, the nature of Third World Exports is raw materials, and it is likely that this trend will continue. Furthermore, the types of raw materials they will be able to export are usually not very diverse, due in large part to the smaller average size of developing countries and thus their lack of geological variety. The table below lists the top thirty countries dependent on single exports:[56]

Country	Export	Percent of value of total exports
Kuwait	petroleum	almost 100.0
Saudi Arabia	petroleum	almost 100.0
Libya	petroleum	99.5
Zambia	copper	95.3
Mauritania	iron ore	95.1
The Gambia	peanut products	95.0
Iraq	petroleum	93.7
Mauritius	sugar	91.2
Venezuela	petroleum	90.2
Iran	petroleum	88.7
Surinam	aluminum (Bauxite and Alumina)	85.0
Burundi	coffee	84.4
Trinidad and Tobago	petroleum	77.3
Vietnam	rubber	77.2
Chile	copper	75.8
Yemen	petroleum	74.0
Chad	cotton	70.7
Ghana	cacao	68.0
Zaire	copper	67.1
Jamaica	aluminum (Bauxite and Alumina)	66.3
Algeria	petroleum	66.0
Sierra Leône	diamonds	61.7
Sudan	cotton	61.3
Colombia	coffee	60.8
Ethiopia	coffee	59.3
Nigeria	petroleum	57.5
Uganda	coffee	57.1
Rwanda	coffee	57.0
Niger	peanuts	56.1
Panama	bananas	55.9

Dependence on such a limited variety of exports makes the developing economies very vulnerable to economic factors far beyond their control. The organizing of nations into cartels is a response of the Third World countries that have an exceptionally high dependence on exceptionally few resources, turning an extremely disadvantageous situation into a very strong market position. Without effective means of combating the negative effects of such dependence on raw materials, developing economies leave themselves open to annihilation by such forces as: price fluctuations; inelastic demand; trade barriers; technological advancements that lead to replacements and substitutes for the products; and the weather.[57]

The Third World finds itself in a similar trap with its import situation. Because the developed nations have more to offer the underdeveloped nations, and because the value of the former's goods is greater than that of the latter's, developing nations are net importers. "In 1978 the Third World absorbed 20 per cent of Western Europe's manufacturing exports, 46 per cent of Japan's, and 32 per cent of North America's."[58] Overall, developing countries buy more than one third of the manufactured goods of the developed countries.[59]

After manufactured goods, oil is the most important import for developing economies. Despite the financial successes the oil-exporting nations have met after bolstering their cartel with higher prices, the rest of the underdeveloped nations that don't export oil have not been able to weather the hardships created by this additional strain. Indeed, they seem to be in a condition that worsens itself with the passage of time and each oil price hike. "The financial position of the non-oil developing countries, the worst victims of the oil-price increase, is already much weaker than in the early 1970's. External indebtedness of these countries has grown rapidly, together with increased concern about their creditworthiness. This will make it harder for them to borrow more to finance increased oil payments."[60]

Yet oil producing nations are not completely exempt from difficult import problems, because they still have to purchase many manufactured goods made only in the high priced economies of developed nations. Said Sola Odunfa, editor of Nigeria's The Punch, "Everybody, especially in the Western world, talks about rising oil prices, but nobody considers that the increase in the price of industrial goods far outstrips the increase in the price of oil. ...if you determine the price at which you will sell your products to us without reference to anybody, we have the right to sell whatever products we have, including oil, at whatever price we think is economic."[61]

With the multinationals at the controls for the trading of underdeveloped nations, what is the balance bewteen imports and exports? Surprisingly, there is very little balance; it is more like a dominance of imports into than exports from them. In spite of the dependence of advanced nations on raw materials and other Third World products, that of the latter on advanced technology is greater, and the prices of technology comes higher.

"As long as the multinational enterprise has the power, difficult or improbable though its use may sometimes be, to dry up technology or export technicians or drain off capital or reduce production or shift profits or alter prices or allocate export markets, there is a latent or active tension associated with its presence."[62] Although the effects of cartelization are significant (O.P.E.C. countries' total reserve surplus of currency will reach $250 billion in 1980[63]), the effects of dependence on the West are greater. Even in the oil industry, "... it has been demonstrated that the oil producers are as dependent on Western markets as the Western countries are on oil." [64]

For the Third World overall, "Exports have failed to pay for imports of machinery and equipment has been financed largely by loans from governments and institutions."[65] Along with this heavy financing go heavy finance charges and interest, putting an even tighter hold on growing economies. Their situation is such that in order to export what few products they have, they must import machinery; in order to do that, they must import capital, for which they must in turn export finance charges. From 1965 - 1976, the external public debt of 80 developing nations increased from $37.4 billion to $66.7 billion, for which interest and principal payments amounted to an increase from $3.5 billion to $5.9 billion for the same period.[66] So serious is the problem of the export of capital in the form of principal payments that the U.N. Conference on Trade and Development reports no real increase in the volume of development aid since 1971.[67]

The position of American multinationals in the trade sector is more favorable than that of the Third World nations. So much, in fact, that the United States exports more to developing countries than to the European Economic Community (Common Market), Japan, and the Socialist countries combined.[68] During this heavy trade with developing nations, from 1950 - 1965, there was only one year when outflows from the United States were greater than inflows back to U.S. parents, leaving a net balance for the same period of a $12 billion drain in the L.D.C.'s ($11 billion of new investments minus $23 billion of income from the L.D.C.'s).[69] From their viewpoint, "...such data do persuade some L.D.C.'s that the contribution of private capital amounts to less than they are paying for it."[70] Even in the prosperous oil economies, the multinationals tend to profit more from cartelization than the cartels themselves. "Numerous computations by Western and O.P.E.C. experts show that last year alone each ton of oil from developing countries yielded $250 to $260 net profit in Western Europe, with only $90 to $95 to the O.P.E.C countries."[71]

Is this expolitation? Goldthorpe says not, but that it may be more serious. "If it were really the case that the rich countries depended on the products of poor countries, for which they paid them an unduly low price, that would indeed be exploitation. But it is not like that. The dependence of the rich nations on supplies from the poor is actually very slight. The poor countries' actual difficulty, indeed, is quite the reverse --- and much more intractable. It is that of marketing their goods at all in the rich countries, of securing outlets for their products, and of holding down their prices in highly competitive markets."[72] Whether the lot of the Third World in international trade is due to exploitation or simply the give-and-take of the competitive market is a judgement to be made later. For now, it is enough to point out some imbalances they experience and the difficulty they will reach in trying to overcome them.

Unemployment

"When we talk about Third World pressures putting our workers out of jobs, this needs to be understood in the context of 15 to 30 per cent structural unemployment in developing countries and what that means."[73] Unemployment is more than just a major problem in the Third World, more than just characteristic; it is, in Rosemanry Right's words, "structural." From 1948 to 1961, although the industrial output of the L.D.C.'s increased 7.5 percent a year, unemployment increased by 3.5 percent a year, accompanied by a rise in urban population of 4.6 percent a year,[74] and there are not many signs of that situation improving very much.

When we say that the unemployment is structural, we mean that there are many factors of underdeveloped economies that are inherent to them, and that these facters cause a perpetuation of the unemployment problem. It is a matter related closely to the other problems already discussed in the areas of agriculture, population, investment, and trade; indeed, it is more than just "closely related," it is a result of.

In previous generation, the population would take care of itself in the agricultural sector, putting people to work in the fields. Large families were assets because of the large work force they localized in small areas. If some families were too large, then, in Darwinistic terms, they simply didn't make it unless others contributed to their survival. With the introduction of foreign industry and the lure of the city life, a viable option was presented to those families too large to be efficient on the farms. Furthermore, with the introduction of more modern farming techniques, even more people were free to find work in industry.

The nature of the work available there, however, was not such that very many jobs were to be had. "The introduction of heavy industry into the less developed economies does not provide much wage employment because of the capital-intensive nature of this industry."[75] "The dominant technology in industry is now also highly developed and capital-intensive; it provides work for a few highly paid workers, in contrast to the masses of unskilled workers who in former times dug the canals, laid the railways, and hewed coal by hand."[76]

The capital versus labor intensive choice is one influenced by investment and trade policies. Since emerging nations have such heavy debts to pay, they need to utilize the most efficient forms of development available. Also, the positions of the multinationals is such that capital-intensive investments are the most profitable to make. "numerous studies have shown that by building an inherent bias against the potentially labor-intensive sectors of their economy ---

namely agriculture and manufactured exports --- many developing countries greatly damaged the prospects of their poor and burgeoning labor force."[77]

In order to increase the employment potential of their economies, developing nations must improve the labor intensive sectors. It is estimated that by the year 2000, the Third World will need to double the amount of productive jobs in order to achieve full employment.[78] This will have to come in the development of agriculture, which has the potential to absorb a great deal of the labor force, and in the development of new technology that the Third World nations themselves would be able to not only use but export and sell as well. The imperative of this is made clearer by the increasing burden put on an already strained economy by the masses of jobless and by the potential for unrest they present.

THE POLITICS OF BUSINESS

As with states of all stages of development, and certainly as in the international relations of these states, the economic problems of the Third World, and the social problems that accompany them or are brought about by them, have become political problems as well. Indeed, the political front may be the only one over which the citizens of developing nations have any degree of control, unless they can find management positions within international corporate structures. Business, too, has a definite need for political organization in order to have more definite ideas as to what the social needs and areas of concern are in the economies they hope to operate [redacted]. In addition, a strong political structure lends an air of stability to the economic climate of a nation, which tends to inspire confidence in developers that their investments might have a future.

The presence of multinational corporations in the Third World, or in any world, for that matter, has not gone without substantial controversy and tension. Products of multinationals have been boycotted in their parent countries (e.g., Nestles, Campbells, and Dole), assets have been nationalized, property expropriated, plants picketed, and various other expressions of dissatisfaction have been communicated. But the multinationals are here to stay; they are too entrenched in the economies of developing nations, and these nations need the expertise, technology, and markets they provide.

To consider the relationship between the business community and governments, and that of both with the people, is to consider the future prospects of economic and political growth and maturity. There are three areas that will be discussed here in order to gain some appreciation of the roles of business and government in the Third World. Comprising this discussion are examinations of: some sources of tension brought about by the presence of multinationals in host countries; the role of governments of dealing with these tensions and alternatives for political maturity; cooperation among nations in the international arena and their impact on foreign affairs in general.

Sources of Tension

"The multinationals, after all, have succeeded primarily because they provide the products and jobs people want; if there is one thing more alarming to a small country than the presence of multinationals, it is their absence."[79] Problems arise when this presence brings with it a strong, organized, and well-funded impetus in the direction of sets of goals that may not be congruous with those set by the governments charged with the establishment of national priorities. For instance, one of the major goals of international corporations, in addition to those common to all business enterprises such as the generation of profit and corporate growth, is "...to prescribe policies for the increase in output per person. With such an increase will come an increase in the choices that people have."[80] But it is precisely the areas of production and chanelling of choices that governments prefer to be dominant in. Thus, the relationship between governments and mutinationals must be cooperative, with the businesses conforming to the ways and decision-making processes of the governments. "Both the reaction of industry in the host country and that of the host government depend significantly on how well the foreign affiliate melds into the established mechanisms of business-government relations."[81]

Ideally, then, the "should be" of policy-making is that business should conform to what is presribed by governments. International business is called to "...find a way to collaborate with host governments without taking over the responsibility for policy making."[82]

Practically, though, the "what is" of policy making is that business follows its own policies in light of its own particular goals related to making money and helping the corporation grow. If these policies are the same as those of the host governments, then there will be few problems. However, as is usually the case, "...the multinationals are abusing their dominant positions by devices that benefit the company first, their parent economy second (i.e. the United States and Europe), and only then their host economy in the Third World."[83]

For the improvement of the host economy to become a greater priority in policies carried out by the multinationals, they may have to rearrange their structures in such a way that the dominance of their centralized nature and the integration of their affiliates is less compelling. If enterprises in foreign countries can be seen not as mere cogs on a giant complex but as integral parts of growing economies, then an important attitudinal change will have been made. "But both of these characteristics (centralization and integration of affiliates) are of the essence of the multinational enterprise. Therefore, what is being asked is that the multinational enterprise be not itself but something else."[84]

In light of this conflict of goals, there are three basic pressures that, according to Behrman, governments have to deal with most frequently, for which a metamorphosis of corporate character may not be a requirement for a solution. They are: the competitive disturbances caused by the presence of multinationals in the domestic market; the increased uncertainty and disruption of the economic plans and programs of the governments; and a loss of control over the activities by both the host and parent jurisdictions.[85] This categorization accounts well for most of the major sources of tension and will provide a fine organizational basis for discussion.

Among competitive disturbances in the domestic market are reluctance to hire nationals for top posts, a contrasting phenomenon of the "brain drain," the buying of local companies for a bargain, and a drain on domestic investment capital due to local investment in the multinationals.[86] The first two problems describe disruptions in the competition of the labor market, where management is controlled by personnel from parent nations, leaving little opportunity for the advancement of local people within the corporate structures, and where the exceptionally talented nationals are exported from the economy that produced them into economies that may be better prepared to offer enticing salaries and prestigious positions.

If a major multinational corporation comes across the opportunity to buy a local company that, due to a variety of circumstances, may not be as valuable as it may have the potential for, then it is more than alluring as an investment. However, this results often in competitive disturbances in the development of medium-sized local business and the maintenance of monopoly-free competition. Also, the development of local industry is retarded by the channeling of locally generated investment capital into multinational, as opposed to local enterprises, disrupting the competitive nature of the local investment market.

Closely related to the issue of competitive diturbance is the debate over the course of development to follow in regards to how evenly investment should be spread among different sectors.

"A perennial issue in development economics is concerned with the relative merits of 'balanced growth' on the one hand and a concentration on a 'leading sector' on the other."[87] It should be pointed out, however, that "leading sector" is synonymous with "unbalanced growth," which is what most countries have right now.

Another area of the economy associated with competition within the host nation is in the area of wages, prices, and labor relations. The social policies of governments in regards to wage and price levels, which is intimately related to the availability of products and their role in import-export policy, may not be congruous with corporate goals in the pursuit of profit and growth. "Many governments are attempting to maintain economic stability through policies directed at reducing fluctuations in prices and wages. Affiliates of U.S. enterprises are likely to be interested in the same objectives, but it is feasible for the parent to insist on the maintenance of lower prices and higher wages than are acceptable to domestic companies in the same industry."[88] Whereas low prices and high wages may tend to undercut local business, the opposite policy of low wages and high prices can have equally serious, though sometimes different consequences.

A comparison of the position of governments in dealing with labor problems can be made with the position of the American government in dealing with the problems it encountered with its foundling labor force. "As one U.S. executive put it, 'The conditions of labor relations in Argentina, when I was down there six years ago, was strikingly similar to that in the United States back in the thirties, Had I been able to see the parallels involved and to convince our men in Argentina of those similarities, we would have done a much better job in handling our labor relations in that country.'"[89] If business can become aware of the historical forces at work in the new economies they are developing, then many of the conflicts worked out with blood, violence, and domestic travail in this country could be more easily overcome.

In additon to disturbances caused by multinationals in the competitive forces of developing economies, there is a great deal of uncertainty cast in the plans and programs of government development policies. Although Gregory Grossman cites the first objective of political relations of corporations as being "...in harmony with society's objectives,"[90] business may not always be aware of the wants of the governments in their own development schemes, nor may they always be willing to oblige.

"So far, multinational enterprises have been concentrated largely in a few industries --- in oil, mining, drugs and chemicals, machinery, transportation equipment, and food and tobacco. A few of these industries, as it happens, embrace national activities in which nation-states feel a special vulnerability and insecurity..."[91] Governments are usually clear about what is expected of the muttinational and how it might contribute to real economic growth. "The foreigner is welcome only when he contributes more than mere ownership. An inflow of capital is not a sufficient contribution to justify ownership.

Governments want contributions from the parents in the areas of management, techniques, and marketing skills, including export opportunities."[92]

What is required, then, is a political savvy on the part of corporate management in dealing with the governments of nations they operate in and in assessing the overall nature of these nations' political climates. "Some companies studied met unexpected trouble because they were unrealistic about the role of foreign governments in regulating the economy. Unrealistic assumptions about the political climate in the country in which the company is about to invest have been equally costly."[93] "But the multinational enterprise is likely to pay little attention to national interests because it is essentially a non-political animal. In addition, because a response to one national interest can entail a conflict with that of another country, the company may not go out of its way to discover what those interests are."[94]

In spite of this political blindness, corporate policies influence government policies by altering the conditions that inspire them. "The entity has the power to alter the basic economic situation facing host governments and thus the power to influence their policies."[95] Indeed, in the case of Chile under Allende, the power of the corporation in influencing conditions had great potential, as confirmed in conversations between Bill Meriam of ITT and William Broe of the CIA, who "...had discussed plans for economic disruption in Chile, (even though) nothing had actually been done."[96]

Finally, probably the greatest problem posed by the multinational corporation is one of accountability and jurisdiction, closely related to that of "...the containment of economic power within its proper bounds."[97]

Even though it has been U.S. policy that "Transnational enterprises are obliged to obey local law and refrain from unlawful intervention in the domestic affairs of host countries,"[98] Raymond Vernon still cites jurisdiction conflicts as resulting in a lack of effective control over the activities of the multinationals by their parent governments.[99] In many cases, the lack of control by governments over corporations has led to control by the corporations over governments. The history pages are full of examples of abuses by corporations in meddling in the domestic affairs of nations. The United Fruit Company in Jamaica, Firestone in Liberia, Union Miniere in the Belgian Congo (Zaire), and recently the Shell/B.P. interests in the Nigerian-Biafran dispute all point to the dominant role corporations play in directly influencing political conditions.[100]

Corporations also have a significant potential role in the electoral processes of host nations. Again, a contrast can be found in the case of Chile, where part of the reason for Frei's defeat to Allende is attributed to the unsatisfactory nationalization contracts he was able to wrestle from Kennecott Copper and Anaconda & Andes Copper Mining.[101] After Allende's victory, corporations attempted to assert again their influence on the leadership character of the nation, only in more direct ways. Reports on conversations between William Merriam of ITT and the Presidential Assistant for International Economic

Affairs reveal him asking that "...everything should be done quietly but effectively to see that Allende does not get through the crucial (first) six months."[102] After hearings on the subject of corporate intervention in Chile's elections, ITT president Geneen "...did clearly admit that he had on two separate occasions offered money to stop Allende from coming into power..."[103]

A major factor in contributing to such corporate political abuse is that corporations are often under the jurisdictions of so many different governments that they effectively operate under the jurisdiction of none. The United States is one of the most influential nations in forcing the multinationals parented there to comply with regulations applying to domestic corporations, especially in the area of anti-trust. Yet many of the advantages to having such control are outweighed by the disadvantages encountered by corporations dealing with governments with different attitudes toward such issues; many even encourage the monopolization of certain industries, which puts the corporation in a position where they have to choose which nation's laws they should follow. If they follow American law, then they risk being perceived as "instruments of American imperialism," and if they follow foreign law, then they are still American corporations breaking American corporate law.

This problem is compounded when corporations have affiliates in more than just two countries. Just as the operations of one affiliate affect those of another, so do the laws of one nation affect the practices in another.

In response, perhaps even as a reflex, corporations have developed elements of their own type of sovereignty. Since they can never obey all the laws of all the jurisdictions under which they operate, they can choose which laws they will follow. Naturally, they tend to choose the most lax, making them responsible to only the lowest common denominator of regulation.

For example, the "nomadic millionaire," ITT, paid less taxes in the year 1969-1970 than in previous years, even though its earnings had increased.[104] By using innovative accounting techniques, they are able to transfer various aspects of their operations to different jurisdictions in order to avoid penalties or regulations that those same aspects might encounter under jurisdictions of economies that may be more directly affected by their operation. This makes them "...fairly free to allocate their costs, adjust thier transfer prices, and arrange their affairs, in order to minimize the aggregate burden of national taxes."[105]

The key to discovering the true nature of the operations of multinationals is access to their records. However, there are ways of limiting this access, as it is only one aspect, albeit an important one, of running a corporation. If there are jurisdictions allowing for relative secrecy, then corporations will take advantege of the opportunity. "Huge sums can be shifted in and out of countries, profits can be turned into losses, asstes sold off, without anyone being the wiser. Beyong all other elements of the corporation's <u>sovereignty</u> is the secrecy of its records (as important as the secrecy of the Vatican or the Queen of England), and without breaking that down, there is little hope of making that accountable in other ways, too."[106] (underline added)

It must be noted that such jurisdictional conflicts can work to the disadvantage of the corporation as well as to its advantage. There are cases of double taxation to contrast the examples of little or no taxation, for instance, but these are not as abundant.

Government in the Third World

The national governments of the Third World have a great deal of problems to contend with, most of which are of a very complicated nature and require elaborate solutions. Unfortunately, the levels of political development and maturity among Third World countries are usually not commensurate with the economic advances made by the importation of modern corporate techniques. "A decent respect for the opinions of mankind now seems to require a willingness on the part of sovereigns to expose many critical national policies to the collective scrutiny of a jury of peers."[107]

The imperative of this new review is more compelling than merely for the "decent respect for the opinions of mankind." Myrdal states that "... the reform of governments is a necessary ingredient in the overall plan a developing country must adopt in order to effectively use the economic resources that it may attain."[108] In most instances, the call for greater government involvement in the affairs of the multinational and in correcting the problems they bring is a call to reform of crucial government structures and functions.

The prospects for sweeping reform are related to the positions of the corporation and the government relative to each other. "As long as most of these governments are highly dependent on their regùlar checks from the companies, it is in their interest to push the companies only so far. Both sides still need each other, though the terms of the often unwilling partnership are steadily moving in favor of the governments."[109] The communitive properties of the corporate arrangements are such that the dependence on success in maintaining profit levels is passed from the market through the corporation to the government itself. If the nation could do without the corporation, there would be no problem with controlling it; since the nation is dependent on the corporation for something, and the corporation is dependent on profit, the nation cannot do too much to damage the prospects for the generation of such revenue. "The nub of the controversy is whether the socially beneficial activity of business will or will not significantly reduce profits in the long run."[110]

The relationship between government and business follows a three-stage progression: during the early stage, the government provides special arrangements for the corporation, usually involving protection from competition; during the intermediate stage, the pressure for the development of a national policy begins; during the final stage, the national policy is implemented, providing for a more balanced, mature economy with greater competition.[111] Thus, the beginning of the relationship between government and business must be extremely favorable from the business' point of view, but once it is rather firmly entrenched in the economy of its host, pressure for change turns more bargaining power over to the government. This intermediate stage is the one where we find most developing nations. It is with a view toward the final stage and what type of environment should characterize it that political modernization must take place.

"The terms 'political modernization' and 'political development' are given widely various meanings by different authors..."[112] Claude E. Welch, Jr. suggests three rather encompassing characteristics of political modernization:

> "1. An increased centralization of power in the state, coupled with the weakening of traditional sources of power.
>
> 2. The differentiation and specialization of political institutions.
>
> 3. Increased popular participation in politics, and greater identification of individuals with the political system as a whole."[113]

With improvements made in the directions suggested here, the mature political state would be more able to assess the needs of the people and investors, mobilize organizational prowess in planning for the meeting of these needs, and demonstrate sufficient power to be able to implement its plans with some guarantee of success.

In order to accomplish the goal of greater centralization of power in the state, developing nations need to reassess their qualifications for leadership. "The next goal of the Third World political elites is to acquire status and respect."[114] This quality is important from the viewpoint of the citizenry and the corporations alike; both need assurances about what the political climate will be like in the near (and in the case of the corporation, distant) future. "There is one characteristic of the less developed world, however, that it does seem safe to predict will continue --- endemic political instability. Whatever the trend of ideology may be in the less developed world, uncertainty will be the lot of the foreign investor."[115] If this insecurity can be eliminated, the prospects for a healthier and more equitable development climate will improve as investors pay for the stability that they perceive as protecting their enterprises.

There is a heavy price to pay for stability. It has been said that the best form of government is the benevolent dictatorship, the only problem being finding a dictator who will stay benevolent. Stability that is imposed is not a natural state, but one that will stagnate or erupt. The imposition of martial law in the Philippines was a move to guarantee stability, yet those who live under its rule are growing tired of the climate it generates. "Actual government policy under martial law seems much more oriented toward political survival for President Marcos and a traditional form of development than toward social reform."[116] The leadership that is necessary when there is an increase of power in the state must be aware of the needs of all sectors of the economic and social realms they are charged with guiding. Indeed, perhaps there must be a demonstration of the capability of a nation in producing this high caliber of leadership before power may be entrusted to it.

Once this leadership is established and is able to exhibit credibility in the use of power to influence actions, the next step necessary is the development of structures within the government to channel this power effectively in carrying out policy. "Governments have a dual task --- that of inducing growth, with all the imbalance that it sets in train, and that of restoring balance."[117] There must be a compromise between forces if these seemingly contradictory ends are to be met, and this compromise is the result of negotiation and debate in several specific policy areas. "The potential functions of government which affect business are the same over the free world. They may be divided into the functions of assistance, promotion, rule making, judicial processes, control, advice and planning, ownership and partnership, and protection."[118]

Since the ultimate goal of the multinational is greater productivity, and that of government is better distribution, there must be sufficient social overhead capital to actually carry out plans and policies to completion. "By social overhead capital we mean the necessary infrastructure of education, health care, roads, transportation facilities, and other services usually provided by governments in developed economies. No economy can do without them."[119]

In the final equation, poltical and economic systems are designed to serve the needs of the people; their needs and attitudes must be accounted for when considering possibilities for development. For a population not familiar with participation in a modern political state, there has to be an introduction to attitudinal change which leads to a development of a system of values conducive to effective control of social, political, and economic entities. "The more promising possibilities lie in other directions. One of them is surely the diminution of a sense of urgency, whether for private gain ... or national economic growth; in other words, a change in social values and even possibly ideology. The second and closely related direction of change must be toward effective social control of business..."[120]

"Attitudes have to be changed, long-standing beliefs have to be adjusted to modern realities, people have to have some measure of participation in their government. Economic development depends on popular acceptance of change."[121] Such an attitudinal swing seems to have taken some effect in the oil rich Venezuelan democracy, where the people calamored during the 1978 election campaign that, "...through increased oil revenues the government had the opportunity of solving all Venezuela's problems but, instead, there was a national deficit."[122]

Whether or not the direction of this change in attitude must be made toward an American concept of governance is a question of debate. "It appears to many that U.S. living standards my be gained only by adopting many aspects of the American way of life. While it may be possible to adopt some aspects without accepting the less endearing ones, it is not certain that they are separable..."[123] A crucial question that needs to be addressed by developed nations is whether, when applying restrictions for the use of development aid, they are merely trying to guarantee the success of the program or in actuality exporting, even mandating a lifestyle and way of doing business that is not appropriate to the receiving nation. In establishing the Alliance for Progress in 1961, "The deal was that the United States would provide official aid and private investment, while the Latin American governments carried out reforms that would allow these funds to be used effectively." These reforms included land reform, progressive taxes, and education.[124]

For many, the dependence of further aid on the carrying out of reforms dictated by another government is anachronistic. "On our part, it behooves us little to insist that the underdeveloped country copy our own institutions of industrial capitalism as closely as possible when their conditions and values are usually radically different from those we encountered and espoused in the nineteenth century."[125]

On the other hand, other models of the modern political state may seem just as appealing as the western. From the viewpoint of the multinational enterprise, there could be a danger that the receptiveness of the new system would not be as appreciable as that of a more capitalistic society. "As for the less developed countries, the main question is whether they are likely to adopt some socialist economic system that would grossly limit the role of the multinational enterprise."[126] Already, some less developed countries such as Pakistan, Tunisia, and Iraq, ahve committed themselves to some sort of socialism while maintaining a deliberately ambiguous position on the future of the multinational enterprise there.[127]

The best prospects for the Third World in establishing themselves as viable political entities capable of dealing with their particular problems lie in the development of new forms of government altogether. The conditions that led to the development of modern capitalism are not the same as those encountered by developing nations today. Nor are their conditions more comparable to those that inspired socialism and communism in the late nineteenth and early twentieth centuries. The new strategy for the Third World should be "...aimed at national self-reliance and meeting national needs --- particularly the basic needs of the impoverished masses. This strategy asks developing countries not to adopt uncritically all that they see in the West and stresses the need to develop indigenous science and technology capabilities."[128]

International Relations

The emergence as the multinational corporation as a political as well as economic entity places a great deal of responsibility into board rooms around the world. A factor as major as that of significant economic power concentrated in countries other than those of its host cannot be ignored in the field of relations of nation-states with each other. Thus, many of the problems faced by emerging nations are confronted by the international community of nations, posing a challenge to the established ways of conducting foreign relations. Kurt Waldheim said in 1975, "The international system of economic and trade relations that was devised thirty years ago is now manifestly inadequate. The charge against that order in the past was that it worked well for the affluent and against the poor. It cannot now even be said that it works well for the affluent."[129]

The world community cannot wait for developing nations to join in the affairs of sister nations; the price for withdrawal from the international community is high in terms of that choice's impact on the domestic economic situation. "But unless a nation is willing to accept a low level of living dependent purely on its own natural resources, delinking from the world economy is unlikely to be feasible for any but the continental countries. Thus the case may be made for selective delinking, but that could entail considerable reductions in the standard of living."[130] Due to the nature of the multinational corporation, too, corporate leaders are not exempt from a duty of participation in world affairs in general. "The transcendence of political frontiers by ingenious forms of transnational corporate organization does not, of course, free corporate executives from the dynamic forces of world politics."[131]

Since the majority of multinational corporations are headed by American parents, it is important to examine the role and influence of American interests in the international arena through its corporations. Indeed, a good case can be made about the intertwining of American foreign policy and American corporate policy, especially as perceived by members of host economies. "As long as they are predominantly headed by U.S. firms, there is also a fear that they may be instruments of U.S. policy."[132] This utilization of the facilities and pervasiveness of the multinational for foreign policy objectives may not always be overt. "Of course all intelligence sources, whether in America, Britain, or France, are tempted to use multinational corporations as cover for spies, and there can be little doubt that they do."[133]

That the United States seeks to influence political situations abroad is no secret from the pronouncements of American policymakers. Kissinger assumes that prerogative when he asserts, "Whether and to what extent the United States should seek to affect domestic developments in other countries is a complicated question, the answer to which depends on a variety of elements, including one's conception of the national interest."[134] In addition to these more creative ways of gaining influence abroad, such as espionage, simply the control of development aid funds and the establishment of preconditions for its use is example of American influence. From the standpoint of many recipient countries, "The control of aid is a mere irritant."[135]

Thus, in Chile, though a recipient of more than $1 billion during Frei's administration,[136] there was a great deal of concern about what the communist president would do with the progress that had been made with all that aid. Kissinger insists, however, that "Nationalization of American-owned property was not the issue," the real issue being the maintenance of healthy relations with a country vital to the relations with other nations in the hemisphere.[137] As has been discussed before, though, there is considerable evidence that points to the role of American policy interests in influencing the actions of other sovereign states.

Given the U.S. interest in maintaining control over the multinationals it is parent of, what is the process by which policy decisions are made? The sources of official American attitudes toward its corporations abroad are difficult to trace. "There are at least thirty distant policy areas affecting business overseas, plus domestic policies (e.g wage-price guidelines) which affect international competitiveness. These thirty areas are under the jurisdiction of eight different agencies or departments of the government, while another ten or twelve agencies assert jurisdiction, depending on the issue."[138] Thus, it is not unusual for the position of the United States government to be unclear in regards to the role of their multinationals; it is even less unusual for the multinationals to not be able to locate the agency charged with the formation and carrying out of these policies.

It is no surprise, then, that the corporations would want to bypass the mess offered by their parent government and deal directly with their clients. "Contrary to the common impression, large U.S. controlled enterprises are remarkably reluctant to invoke the support of the U.S. government in overcoming the obstacles created by other governments. Accordingly, when U.S. controlled enterprises have felt foreign governments breathing down their necks, the disposition has been to find some answer that did not involve intergovernmental threat or collaboration."[139] This involvement of the corporation with the host government may include just working within the agencies of the host, but it may also require a more direct involvement in the political processes of the host nation, such as in influencing elections, like in Chile where ITT head Geneen offered a substantial amount of money for the election fund of the conservative candidate for president, Jorge Alessandri.[140]

The United States and other major capitalist nations are not the only international powers with interests in the Third World. There is an appeal to communism for Third World nations in its intricate connection of the economic with the political in developing governmental structures and attitudes. Also, the problems that accompany the multinational corporations are associated not with factors that can be overcome but with a certain inherent nature of capitalism that makes it undesirable regardless of the supposed cost to the economic growth or civil liberties of the nation. Finally, there is no significant middle class among Third World nations that would be forced to give up its prominent position after the revolution. "Two important Western concepts that the non-Western world has used against the West are nationalism with its linked principle of self-determination, and equality, of which Communism is a variant."[141]

When the opportunity arises for the Second World forces to fill in a void left by the capitalists, it is taken full advantage of. The Soviet Union is constantly issuing calls along the "workers of the world, unite!" theme, and they are often the instrument of that unity. "Their (Western governments and press) indifference created something of a vacuum in U.N.E.S.C.O. when developing countries were looking for a forum and the Soviet Union was anxious for a kind of solidarity with developing countries."[142]

More than likely, the response of the Third World to the East-

West conflict will be increasingly characterized by non-alignment. In their various economic programs, leaders of developing nations will "...court every nation from which we think we can borrow or get assistance, and we shall do business with whomever responds to us."[143] "In our battle to upgrade living standards we don't care where assistance comes from --- whether it is wrapped in the Soviet flag or comes aboard Air Force One. Of course, we will use the rivalry if it means cheaper industrial products for us."[144]

Although there are at least as many instances of Soviet intervention in the affairs of other nations as there are of the Americans doing so, like in Chile where Cuba and other communist sources were reported to have funnelled funds and other assistance to Allende during his election campaign, the prospects for nations receiving active aid from both power blocks are not necessarily bleak. For example, "When Kenya became independent, the Soviet agency Tass installed its entire communications network. The Kenyan Government said would you mind putting in a Reuters ticker, and the Russians found it difficult to say no. Kenya has one of the freest presses in Africa."[145]

One of the most effective media for the alleviation of some of the problems of developing nations, finally, is that of international cooperation. "In the words of Pierre Malue, the E.E.C. economic counselor in Washington in 1972, 'Cooperation among governments is needed more than ever to avoid the excesses of the multinational corporations.'"[146] In fact, examples of cooperation among nations are more abundant now than ever before. This increase in the amount of examples of cooperation is due in large part to Third World nations having arrived at a definition of their needs for development. "The Third World's demand for a new international order includes specific demands for: Preferential treatment for exports in developed country markets on a nonreciprocal basis; increased concessional financial transfers with no strings attached equal to 7 per cent of G.N.P. of O.E.C.D. countries; a link between the I.M.F.'s special drawing rights and development assistance; the writing off of past debts to creditor O.E.C.D. countries; an increase in participation in the decisionmaking process of international development and financial institutions; the establishment of a Common Fund for financing buffer stocks of commodities of interest to less developed countries to stabilize (and possibly raise) their prices; codes of conduct for multinational companies; the transfer of a greater share of the world's industrial capacity to the Third World."[147]

In bringing about some of these goals, several nations have taken initiative by organizing into groups with common problems for the development of common solutions designed solely for developing nations. "Toward the creation of new organizations and systems of cooperation, there has been slightly more progress. At the regional and subregional levels, clearinghouses, technology centers, information referral systems, news agency pools, trade protocols, and a variety of other arrangements have surfaced over the past five years."[148]

African Information Ministers have agreed to establish a

Pan-African News Agency (PAFNA) that will be free of Western control and influence,[149] and over the issue of baby-bottle safety. Jamaica, Ghana, Papua, New Guinea, and Guinea-Bissau have cooperated in enacting regulation of imports of infant formula and the availability of bottles and nipples.[150] There are, however, still many areas for concern that have not been confronted, but developing nations are beginning to assert themselves more strongly, and this assertion is assuming a character more natural to the situations they must deal with.

THE CHICKEN OR THE EGG?

The whole question of what course to follow in the development of mature societies and in overcoming problems generated by the presence of the multinationals turns on whether economic progress must precede political development, or whether the growth of the economic sector depends on a certain political maturity as a precondition. Economists and political scientists are split on this philosophical point, usually with each preferring the development of his studied sector as a precondition for that of the other.

If Vernon is right in that "...that tension generated by foreign-owned subdidiaries is to some extent independent of what the subsidiary does; (and that) the overt rationalizations for the existence of the tension will shift as the function of the subsidiary shifts,"[151] then there must be some characteristic of the multinational that is so much a part of what it is, and that is so repulsive to the people in developing nations, that there is nothing or little that can be done to alleviate the problems and lessen the tensions, no matter what the corporation might do. If that is the case, then it should pursue whatever course it may see fit in realizing its goals of the maximization of profit and the growth of the corporation.

Gregory Grossman maintains, in a similar vein, that the success of governments, or at least the perceived success, depends on how the economic situation and development is perceived. "In most of the hundred-odd underdeveloped countries, economic development, meaning primarily growth of production, often constitutes the major national purpose... In many of the countries, the success of their governments and institutions tends to be largely measured in terms of the growth that they produce or permit."[152] He maintains that since there is such a close relationship between economic growth and other elements of social reform, the former must be the precondition for the latter.

Richard Eel takes the position that not only may political stability be not as important as economic growth, but that the latter may be the cause of a lack of stability that could preclude effective political maturity. "Nor, indeed, is stability in itself any sound ctriterion for the degree of modernization. The revolution of modernization, which goes on whether one likes it or not, may in fact usher in tempestuous periods for thses nations and for the world..."[153]

On the other hand, the tensions associated with the presence of multinationals, although related to economic conditions, are made known by and are experienced through social conditions. It is the political organization, not the economic, that is charged with the mandate for improvement of the human condition. Grossman holds that,

"...it would be wrong to assume that growth alone helps solve social problems. It may also be the chief cause of their appearance and aggravation, especially early stages of indutrialization when many of the old traditions, institutions, attitudes, and economic interests are destroyed or impaired. For this reason, economic dvelopment, especially rapid industrialization, may be resisted by various groups in society..."[154] For Grossman, this infusion of the human condition into the equation for development changes the modus operandi, calling for a diversification of motives beyong mere economic growth.

Finally, Kissinger sees the attacking of political problems with economic solutions as anachronism. He points out an example of a political decision taken on economic grounds in the cut-off of American aid to Chile prior to the communist election victory and its consequences. "The cutoff of American aid was unpopular in Chile; it undercut the moderate element represented by Frei, it was exploited by the more radical anti-American wing of the governing party."[155]

"Our experiences of the New Deal and the Marshall Plan were not entirely relevant to promoting economic progress and nation-building in countries with no political tradition and no middle class of managers and administrators. We were not dealing with mature economies but with societies taking their wrenching first steps toward modernization. It became apparent that nation-building depended crucially on the ability to establish political authority. Economic aid, by accelerating the erosion of the traditional order, often made political stability even harder to achieve."[156] For Kissinger, a secure political structure provides the only means of controlling and directing the activities of the rest of the society, including economics.

Taking the middle ground, Blanchfield says that development of each sector must happen concurrently. "It is difficult to dtermine whether the economic characteristics depend on the political or vice-versa. It is more accurate to define them as being in a circular relationship; that is, each causes and affects the other."[157]

In passing judgement, it may first be said that although Blanchfield's assessment is an apparent enough one that it is hard to challenge, it says little in the way of strategy. In determining the course of development for underdeveloped nations, it is not enough to simply state what is; a judgement must be made, using the best tools available, in deciding what should be. It is already agreed upon what needs to be improved in regards to conditions. The real problem is deciding how those conditions may be improved.

In the present state of things, I would maintain that what is needed most is the development of a political maturity reflected in the governmental institutions of developing nations. If economic development would alleviate some of the hardship brought about by the difficulties experienced by the Third World nations, the question must be asked: Why, after hundreds of years of economic development, is there still widespread unemployment and the accompanying starvation, disease, and discontent found among Third World nations?

Historically speaking, economic development has preceded political modernization in almost every nation that is still under-developed today. Indeed, a majority of new nations are still dealing with establishing any kind of lasting political tradition, whereas international business has had quite a chance to establish itself. "The scale of industrial development has far outstripped the scale of political development, a discrepancy which ruthless companies can easily exploit."[158]

Finally, the root assumption of our way of life, in both the economic and political senses, is that people usually know what they want, and they should be able to get it. Under any different assumption, a market economy would collapse, and democracy in any degree or form would never have developed. Unless we are willing to depart from this assessment of the human condition, a change I am not ready to make, then the people who are most profoundly affected by the course followed should have the greatest influence in charting that course; the development of stable, participatory political systems is the only way to achieve that goal.

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* Note: typestyle difference due to the malfunctioning of the machine used on the rest of the paper.